

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WESTERN FLEMING)	
COUNTY WATER DISTRICT FOR A GENERAL)	
RATE ADJUSTMENT, FOR AN INCREASE IN)	
NON-RECURRING CHARGES, AND FOR)	CASE NO.
REVISIONS TO ITS TARIFF PURSUANT TO)	2007-00332
THE PROVISIONS OF KRS 278.030, 278.0152,)	
807 KAR 5:001 AND 807 KAR 5:011)	

ORDER

On July 25, 2007, Western Fleming County Water District (“Western Fleming”) applied for authority to increase its water rates and certain non-recurring charges. Because of filing deficiencies, the Commission did not accept the application for filing until September 6, 2007.

Commission Staff, having performed a limited financial review of Western Fleming’s operations, has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff’s findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 14 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or an informal conference.

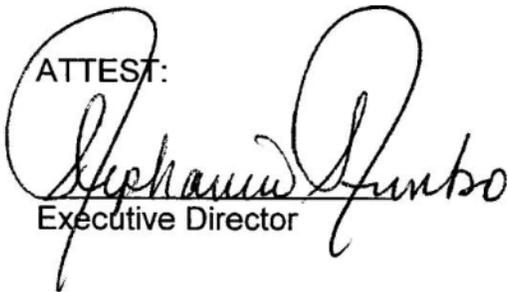
2. Any party requesting a hearing shall include in its request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony that it would present at hearing.

3. If no request for a hearing or an informal conference is received within the 14 days, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 23rd day of May, 2008.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
WESTERN FLEMING COUNTY WATER DISTRICT
CASE NO. 2007-00332

On July 25, 2007, Western Fleming County Water District (“Western Fleming”) applied for authority to increase its water rates and non-recurring charges. Because of filing deficiencies, the Commission did not accept the application for filing until September 6, 2007.

In order to evaluate the requested increase Commission Staff performed a limited financial review of Western Fleming’s test period operations, the calendar year ending December 31, 2006. The scope of Staff’s review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mark Frost and Jason Green of the Commission’s Division of Financial Analysis performed the limited review. This report summarizes Staff’s review and recommendations. Jason Green is responsible for the pro forma revenue adjustment, the Cost-of-Service Study, and the increase in the non-recurring charges. Mark Frost is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit 6 of the application, attached as Appendix A, is the comparison of Western Fleming’s actual and pro forma operations. In developing its actual test-period operations to include in the income statement comparison, Western Fleming relied on

the monthly income statements, which do not correspond to the operating revenues and expenses listed in its 2006 Annual Report¹ on file with the Commission. Based upon the recommendations and findings of Staff's limited field review and the operating revenues and expenses reported in the 2006 Annual Report, Western Fleming's pro forma operating statement would appear as set forth in Appendix B.

Listed in Table 1 below, are the 6 long-term debt issuances that Western Fleming reported as having outstanding balances as of December 31, 2005.²

<u>Description</u>	<u>Interest Rate</u>	<u>Balance 12/31/05</u>
1969 Serial	5.0% to 5.5%	\$ 83,981
1980 FHA	5.000%	\$ 331,000
1988 FHA	5.000%	\$ 267,000
1997 FHA	4.500%	\$ 618,500
2003 FHA	4.500%	\$ 489,500
2004 Kentucky Rural Water	4.021%	\$ 299,124

Using the 2006 principal and interest payments, Western Fleming calculated that its annual debt would be \$174,921.³ Since filing its application, Western Fleming has retired the 1969 Series Revenue Bonds. Using a 3-year average of principal and interest payments for the calendar years 2008 through 2010, Staff calculates a debt service for long term-debt debt of \$144,020 as shown in Table 2 below.

¹ Annual Report of Western Fleming to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2006 ("2006 Annual Report") at 27 and 28.

² Western Fleming Report of Audit December 31, 2005, "Notes to Financial Statements," Note 5, Long-Term Debt.

³ See Application, Exhibit 6, Income and Expenses. \$95,985 (Interest Expense) + \$78,936 (Principal Payment) = \$174,921.

Series	2008	2009	2010	Totals	3 Year Avg.
RD Series 1980	\$ 31,850	\$ 31,950	\$ 32,000	\$ 95,800	\$ 31,933
RD Series 1988	19,650	20,250	19,850	\$ 59,750	19,917
RD Series 1997	36,955	36,983	36,987	\$110,925	36,975
RD Series 2002	27,510	27,240	27,447	\$ 82,197	27,399
KRWA Series 2004	28,040	27,483	27,864	\$ 83,387	27,796
Totals	\$144,005	\$143,906	\$144,148		\$144,020

Using its pro forma operations, annual debt service of \$174,921 and a 1.2x Debt Service Coverage (“DSC”), Western Fleming determined that it requires a revenue requirement from water sales of \$960,645, which is \$379,682 or 65.354 percent over Western Fleming’s normalized test period revenues from water sales of \$580,693. The rates proposed by Western Fleming would increase the average monthly residential bill of 5,000 gallons from \$21.50 to \$40.82, an increase of \$19.32 or 89.8 percent.

As shown in Table 3 below, Staff’s recommended pro forma operations, annual debt service of \$144,020 and a 1.2x DSC, results in a revenue requirement from rates of \$832,062, an increase of \$276,131 or 49.67 percent over Staff’s normalized revenue from rates of \$555,931.

	Western Fleming	Commission Staff
Debt Service	\$ 174,921	\$ 144,020
Multiplied by: DSC	0.2	0.2
Debt Service Coverage: RD	\$ 34,984	\$ 28,804
Add: Debt Service	174,921	144,020
Add: Operating Expenses	642,571	515,167
Depreciation	114,031	194,274
Taxes Other Than Income	0	11,212
Total Revenue Requirement	\$ 966,507	\$ 893,477
Less: Other Income & Deductions	5,862	36,383
Revenue Requirement from Operations	\$ 960,645	\$ 857,094
Less: Other Operating Revenues	0	25,032
Revenue - Water Sales	\$ 960,645	\$ 832,062
Less: Pro Forma Revenue - Water Sales	580,963	555,931
Requested/Recommended Increase	\$ 379,682	\$ 276,131

Staff finds that a revenue requirement from rates of \$832,062 will allow Western Fleming to meet its pro forma test-period operating expenses including depreciation expense and provide for adequate equity growth. Staff's proposed rates, as calculated in the Cost-of-Service Study attached hereto as Appendix C, will increase the average monthly residential bill of 5,000 gallons from \$21.50 to \$35.12, an increase of \$13.62 or 63.3 percent.

Staff recommends that the Commission deny Western Fleming's proposed rates and approve the rates set forth in Appendix D, as they will produce the recommended revenue requirement of \$832,062.

Upon its review of Western Fleming's cost justification for its nonrecurring charges, Staff finds the proposed charges, as set out in Appendix D, are reasonable. Therefore, Staff recommends the Commission grant its approval of Western Fleming's proposed nonrecurring charges.

Signatures

Prepared by: Mark C. Frost
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Jason Green
Rate Analyst, Communications, Water
and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2007-00332
WESTERN FLEMING'S REQUESTED
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Test-Period Operations
Operating Revenues:			
Metered Water Sales	\$ 646,444	\$ (66,134)	\$ 580,310
Interest Income	5,862	0	5,862
Discounts and Adjustments	(5,437)	0	(5,437)
Miscellaneous Service Revenues	15,070	0	15,070
Late Payment Charges	9,961	0	9,961
Less - Part of Feb Shown in March	(47,176)	47,176	0
Less- Misread Meters	(18,950)	37,900	18,950
Total Operating Revenues	<u>\$ 605,774</u>	<u>\$ 18,942</u>	<u>\$ 624,716</u>
Operating Expenses:			
Bank Charges	\$ 308	\$ 0	\$ 308
Purchased Water	11,596	56,294	67,890
Fuel/Power	74,801	0	74,801
Office Utilities	144	0	144
Chemicals	95,259	0	95,259
Materials & Supplies	50,902	0	50,902
Maint. - Mains	100	0	100
Maint. - Meters	13,991	0	13,991
Maint. - Equipment	1,318	0	1,318
Office Supplies & Other	4,980	0	4,980
Reimb. - Office Supplies	1,033	0	1,033
Meter Reading	14,914	0	14,914
Testing	9,287	0	9,287
Billing	243	0	243
Contract Services	78,475	(78,475)	0
Testing	53,496	0	53,496
Insurance - General Liability	12,626	0	12,626
Unemployment	931	0	931
Health Insurance	24,481	2,981	27,462
Workers Compensation	6,239	0	6,239
Backhoe Amortization	0	4,714	4,714
Salaries	61,322	78,475	139,797
Commissioner Salaries	12,000	0	12,000
Retirement	0	26,076	26,076
Vehicle Amortization	0	4,905	4,905
Advertising	484	0	484
Miscellaneous	14,749	0	14,749
Telephone - Plant	1,673	0	1,673
Telephone - Office	1,940	0	1,940
Training	309	0	309
Depreciation	114,031	0	114,031
Utility Operating Expenses	<u>\$ 661,632</u>	<u>\$ 94,970</u>	<u>\$ 756,602</u>
Net Income Available for Debt Service	<u>\$ (55,858)</u>	<u>\$ (76,028)</u>	<u>\$ (131,886)</u>

APPENDIX B
STAFF REPORT CASE NO. 2007-00332
STAFF'S RECOMMENDED
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
Operating Revenues:				
Metered Water Sales:	\$ 640,196	\$ (84,265)	(a)	\$ 555,931
Other Water Rev.:				
Misc. Service Rev.	\$ 15,070	\$ 0		\$ 15,070
Other Water Revenues	9,962	0		9,962
Total Other Water Rev.	\$ 25,032	\$ 0		\$ 25,032
Total Operating Rev.	\$ 665,228	\$ (84,265)		\$ 580,963
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages	\$ 143,080	\$ (10,345)	(b)	\$ 132,735
Commissioner Fees	12,000	0		12,000
Emp. Pension & Benefits	0	42,443	(c)	42,443
Purchased Water	50,721	17,169	(d)	67,890
Purchased Power	81,630	0		81,630
Chemicals	95,260	0		95,260
Materials & Supplies	14,647	0		14,647
Cont. Services - Accounting	2,900	0		2,900
Cont. Services - Mgt Fees	1,484	0		1,484
Cont. Services - Water Testing	9,286	0		9,286
Cont. Services - Other	34,351	0		34,351
Ins. - Gen. Liability	9,382	0		9,382
Ins. - Workers' Compensation	6,239	(547)	(e)	5,692
Ins. - Other	28,639	(27,708)	(f)	931
Advertising	484	0		484
Bad Debt Expense	0	0		0
Miscellaneous	4,052	0		4,052
Total Operation & Maint.	\$ 494,155	\$ 21,012		\$ 515,167
Depreciation	151,012	43,262	(g)	194,274
Taxes Other Than Income	10,737	475	(h)	11,212
Utility Operating Expenses	\$ 655,904	\$ 64,749		\$ 720,653
Net Utility Operating Income	\$ 9,324	\$ (149,014)		\$ (139,690)
Other Income & Deductions:				
Interest Income	36,383	0		36,383
Net Inc. Available for Debt Service	\$ 45,707	\$ (149,014)		\$ (103,307)

a. Metered Water Sales. In its 2006 Annual Report, Western Fleming reported test-period revenue from metered water sales of \$640,196. Exhibit 8 of the application is a test period billing analysis, wherein Western Fleming calculates normalized revenue from water sales of \$580,318. Adjusting the results of its billing analysis by the discounts and adjustments, and the misread meters, Western Fleming arrived at its pro forma revenue from water sales of \$593,823.¹

In 2007 the Fleming County Water Association (“Fleming County”) ceased purchasing water from Western Fleming. Eliminating Fleming County as wholesale customer results in a decrease to normalized operating revenues from water sales of \$41,245.²

In its pro forma income statement,³ Western Fleming mistakenly added the adjustment for corrections for the misread meters in the amount of \$18,950. To correct this error, Western Fleming’s pro forma operating revenue from water sales should be decreased by \$37,900⁴ for a corrected pro forma level of \$555,931. Staff is decreasing test-period revenue from water sales of \$640,196 by \$84,265 to reflect the correct pro forma level.

b. Salaries and Wages. Western Fleming reports a test period level of salaries and wages expense of \$143,080. Using Western Fleming’s current staff level

¹ See Application, Exhibit 6, Income and Expenses January 1 to December 31, 2006. \$580,310 (Metered Sales) - \$5,437 (Discounts and Adjustments) + \$18,950 (Misread Meters) = \$593,823.

² 2006 Annual Report at 30.

³ Application, Exhibit 6.

⁴ \$18,950 x 2 = \$37,900.

and the hourly wages that became effective on January 1, 2008, Staff calculates a pro forma salaries and wages expense of \$132,735.⁵ Accordingly, Staff recommends salaries and wages expense be decreased by \$10,345 to reflect its pro forma level of \$132,735.

c. Employee Pensions and Benefits. In 2007 Western Fleming began contributing to the County Employees Retirement System (“CERS”) on behalf of its full-time employees. The current CERS employer contribution rate of 16.17 percent became effective on July 1, 2007. Using the current employee insurance premiums and the employer retirement contribution rate of 16.17 percent, Staff calculates a pro forma level of employee pensions and benefits expense of \$42,442.⁶ Test period operating expenses have been increased by \$42,442 to reflect Staff’s pro forma employee pensions and benefits expense.

d. Purchased Water. Western Fleming reports a test-period level of purchased water expense of \$50,721. Western Fleming entered into a contract with the Greater Fleming County Water Commission wherein it agreed to “take or pay” for 100,000 gallons of water per day. By applying the current rate of \$1.86 per 1,000

⁵ Office Manager Supervisor Plant Operator Maint. Supervisor Meter Reader (Contract) Pro Forma Level	$\$ 1,718.10 \times 12 \text{ Months} \approx$ $\$ 3,660.14 \times 12 \text{ Months} \approx$ $\$ 2,083.33 \times 12 \text{ Months} \approx$ $\$ 2,333.33 \times 12 \text{ Months} \approx$ $\$ 0.93 \times 16,340 \text{ (Bills)} \approx$	$\$ 20,617$ $43,922$ $25,000$ $28,000$ $+ 15,196$ <u>$\\$ 132,735$</u>
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⁶ \$132,735 (Pro Forma Salaries and Wages) - \$15,196 (Meter Reader) = \$117,539 x 16.17% = \$19,007 (Retirement) + \$23,436 (\$5,859 Annual Employee Health Ins. Premium x 4 Employees) = \$42,442.

gallons to the contracted annual water purchases of 36,500,000,⁷ Staff calculates a pro forma purchased water expense of \$67,890,⁸ \$17,169 above the test period actual level of \$50,721. Accordingly, Staff proposes to increase test-period purchased water expense by \$17,169.

e. Workers' Compensation Insurance. Western Fleming reports a test-period level of workers compensation expense of \$6,239. The workers compensation insurance premium for the 12 month period of July 1, 2007 through July 1, 2008 is \$5,692, which is \$547 less than the reported expense. Accordingly, Staff is reducing test-period workers compensation insurance expense by \$547.

f. Insurance - Other. Western Fleming reports a test-period insurance – other expense of \$27,708, which is the misclassification of the employee health insurance premiums. To correct this error, Staff is reducing pro forma operating expenses by \$27,708 and has included the employee health insurance premiums in the account employee pensions and benefits expense.

g. Depreciation. Western Fleming reports a test-period depreciation expense of \$151,012. Western Fleming provided Staff with a copy of its depreciation schedule for the calendar year 2007. In reviewing this schedule, Staff notes that depreciation expense will increase to \$194,274 in 2008 based upon the un-depreciated level of utility plant in service reported on December 31, 2007. Accordingly, Staff proposes to increase depreciation expense by \$43,262 to reflect its pro forma level of \$194,274.

⁷ 100,000 Gallons (Daily Purchases) x 365 (Days) = 36,500,000 Gallons.

⁸ 36,500,000 Gallons (Annual Purchases) ÷ 1,000 Gallons x \$1.86 (Rate per 1,000 Gallons) = \$57,890.

h. Payroll Taxes. Western Fleming reports a test period payroll tax expense of \$9,679. Using the pro forma payroll determined reasonable herein and the current “FICA” rate of 7.65 percent, Staff calculates a pro forma payroll tax expense of \$10,154,⁹ \$475 above the reported level. Accordingly, Staff is increasing payroll tax expense by \$475.

⁹ \$132,735 (Pro Forma Payroll) x 7.65% (FICA Rate) = \$10,154.

APPENDIX C
 STAFF REPORT CASE NO. 2007-00332
 STAFF'S
 COST-OF-SERVICE STUDY

CALCULATION OF WATER RATES

	<u>Total</u>	<u>FIRST 1,000</u>	<u>NEXT 6,000</u>	<u>NEXT 3,000</u>	<u>OVER 10,000</u>
FROM BILLING ANALYSIS					
	100.00				
COMMODITY PERCENTS	%	17.15%	52.00%	13.28%	17.58%
ACTUAL COMMODITY SALES	94,059,093	16,129,518	48,910,791	12,487,630	16,531,154
PEAK DEMAND WEIGHTED FACTOR		2.00	1.75	1.50	1.00
PEAK DEMAND	153,115		85,593,884		16,531,154
WEIGHTED SALES	100.00	32,259,036	84	18,731,445	54
DEMAND PERCENTS	%	21.07%	55.90%	12.23%	10.80%
	\$		\$	\$	\$
COMMODITY COSTS	9,202	\$ 1,578	4,785	1,222	1,617
	\$		\$	\$	\$
DEMAND COSTS	510,769	\$ 107,611	285,528	62,485	55,145
	\$		\$	\$	\$
CUSTOMER COSTS	76,513	\$ 76,513			
	\$		\$	\$	\$
TOTAL COSTS	596,484	\$ 185,702	290,313	63,707	56,762
DIVIDE BY			48,910,791		16,531,154
BILLS/GALLONS		16,340	91	12,487,630	54
CALCULATED RATES RECOMMENDED RATES		\$ 11.36	\$ 5.94	\$ 5.10	\$ 3.43
		\$ 11.36	\$ 5.94	\$ 5.10	\$ 3.43
		FIRST 1,000	NEXT 6,000	NEXT 3,000	OVER 10,000

SUMMARY OF ALLOCATIONS

	<u>TOTAL</u>	<u>COMMODITY</u>	<u>DEMAND</u>
Plant Percentages	100.00%		94.45%
Available for Debt Service	\$ 172,824		\$ 163,233
Depreciation Percentages	100.00%		91.82%
Total Depreciation	194,274		\$ 178,373
Total Operations & Maintenance	526,379	244,780	169,150
REVENUE REQUIREMENT	\$ 893,477		
Less: Other Operating Revenue	(25,032)		
Less: Interest Income	(36,383)		
Less: Sales for Resale	(235,578)	(235,578)	
REVENUE REQUIREMENT FROM RATES	\$ 596,484	\$ 9,202	\$ 510,769

ALLOCATION OF PLANT VALUE

	<u>TOTAL</u>	<u>COMMODITY</u>	<u>DEMAND</u>
Structures & Improvements	\$ 70,500		\$ 70,500
Land & Land Rights	28,171		28,171
Water Treatment Equipment	1,326,392		1,326,392
Distribution Reservoirs & Standpipes	194,344		194,344
Meters & Meter Installations	290,095		
Transmission & Distribution Mains	3,320,111		3,320,111
SUBTOTAL	\$ 5,229,613	\$ -	\$ 4,939,518
PERCENT	100.00%	0.00%	94.45%
General Plant (1)			
Power Operated Equipment	226	0	213
TOTAL VALUE	\$ 5,229,839	\$ -	\$ 4,939,731

(1) General Plant allocated based on overall weighted allocation of all other plant.

Note: Figures used were derived from 2006 Annual Report

ALLOCATION OF DEPRECIATION EXPENSE

	<u>TOTAL</u>	<u>COMMODITY</u>	<u>DEMAND</u>
Structures & Improvements	\$ 915,389		\$ 915,389
Distribution Reservoirs & Standpipes	147,807		147,807
Pumping Equipment	52,260		52,260
Meters & Meter Installations	197,154		
Water Treatment Equipment	1,198		1,198
Transmission & Distribution Mains	1,095,010		1,095,010
SUBTOTAL	\$ 2,408,818	\$ -	\$ 2,211,664
PERCENT	100.00%	0.00%	91.82%
Power Generating Equipment	226	0	208
Office Furniture & Equipment	41,976	0	38,540
TOTAL DEPRECIATION	\$ 2,451,020	\$ -	\$ 2,250,412

Note: Figures used were derived from 2006 Annual Report

ALLOCATION OF DEPRECIATION EXPENSE

	<u>TOTAL</u>	<u>COMMODITY</u>	<u>DEMAND</u>
Contractual Services - Management Fees	\$ 1,484		
Contractual Services - Water Testing	9,286		\$ 9,286
Contractual Services - Accounting	2,900		
Employees Salaries & Wages	132,735		82,845
Employee Pension & Benefits	42,443		28,337
Taxes Other Than Income	11,212		
Advertising	484		
Purchased Water	67,890	\$ 67,890	
Purchased Power	81,630	81,630	
Chemicals	95,260	95,260	
SUBTOTAL	\$ 445,324	\$ 244,780	\$ 120,468
LESS COMMODITY	\$ (244,780)		
SUBTOTAL	\$ 200,544		\$ 120,468
PERCENT	100.00%	0.00%	60.07%
Insurance - Gen. Liability	9,382	0	5,636
Insurance - Workers' Compensation	931		559
Insurance - Other	5,692		3,419
Contractual Services - Other	34,351		20,635
Materials & Supplies	14,647		8,799
Commissioner Fees	12,000		7,208
Miscellaneous	4,052	0	2,434
TOTAL DEPRECIATION	\$ 526,379	\$ 244,780	\$ 169,159

Note: Figures used were derived from 2006 Annual Report

APPENDIX D
STAFF REPORT CASE NO. 2007-00332
STAFF'S
RECOMMENDED RATES AND
NONRECURRING CHARGES

RATES AND CHARGES

5/8" x 3/4" Meter

First	1,000 gallons	\$	11.36	Minimum bill
Next	6,000 gallons		5.94	per 1,000 gallons
Next	3,000 gallons		5.10	per 1,000 gallons
Over	10,000 gallons		3.43	per 1,000 gallons

Wholesale Water Rates \$ 1.43 per 1,000 gallons

METER CONNECTION/TAP CHARGES

5/8 Inch Meter	\$ 600
1 Inch Meter	Actual Cost

SPECIAL NON-RECURRING CHARGES

Connection-Turn On	\$ 25.00
Re-Connection	\$ 50.00
Re-Connection (After Hours)	\$ 60.00
Service Call/Investigation	\$ 25.00
Service Call (After Hours)	\$ 35.00